FORM AL-T-2(1-50)

1.933 P914

# PRE-LOAN PROCEDURE FOR RURAL TELEPHONE COOPERATIVES



U. S. DEPARTMENT OF AGRICULTURE RURAL ELECTRIFICATION ADMINISTRATION

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#### INTRODUCTION

This bulletin is intended primarily for the guidance of groups of rural people who wish to secure for themselves adequate telephone service through their own locally-owned, locally-operated cooperative telephone systems with financial and technical assistance from REA pursuant to Public Law 423, 81st Congress (rural telephone amendment to the Rural Electrification Act of 1936 which is attached hereto). The information will assist in the preparation of the attached REA Form AL-T-1, "Application for Rural Telephone Loan."

Telephone service through new cooperative organizations will normally be sought by rural people where there is no telephone service available to them at all or where existing suppliers of telephone service are unable or unwilling to furnish adequate service. Development of telephone cooperatives may occur along various patterns depending upon the needs of each locality. They may be self-contained systems operating their own switchboard facilities and trunk lines connecting to neighboring toll facilities, or systems composed of farmer-service lines connecting to existing town lines and facilities. No loans will be made for the duplication of lines, facilities or systems providing reasonably adequate service.

ROLE OF ELECTRIC COOPERATIVES. At the outset due consideration must be given to the REA policy of confining telephone loans to telephone organizations. This policy should not by any means prevent the closest cooperation between rural electric and rural telephone cooperative organizations. Where it is found necessary for rural people to take the initiative to provide adequate telephone service for themselves by forming new telephone cooperatives, the same persons who are now members of rural electric cooperatives might well form the nucleus of the new telephone cooperatives. The officers and employees of existing electric cooperative systems should and undoubtedly will furnish their full cooperation and assistance to rural people taking the initiative in organizing new rural telephone cooperatives. REA has already communicated to its rural electrification borrowers its suggestion that they use their facilities of communications with their own members to inform them of the telephone loan program and to start them thinking about the best ways of securing area coverage telephone service in their areas. Consideration should be given to joint utilization of facilities by both cooperatives to achieve savings in costs and eliminate structural conflicts.

The principal standards and requirements to be considered by prospective cooperative borrowers are set forth in the attached bulletin PA-83, entitled "The Rural Telephone Loan Program." This bulletin should be carefully studied.

#### INITIAL MEETINGS - ARRANGEMENTS

DETERMINATION OF SERVICE AREA. It is advisable to determine first the extent of the rural community interest in obtaining adequate telephone service through a new cooperative organization. Arrangements should be made for holding a meeting or meetings of all residents of the community or communities who would receive service through a single local exchange or through connected exchanges. This requires an initial determination by the volunteer sponsors or rural leaders of the service areas which the new telephone enterprise would serve. This determination will be guided primarily by consideration of (a) the boundaries of the territory within which residents have common agricultural, commercial, industrial and social interests requiring quick, easy and inexpensive communication with their trading and community centers and with each other; (b) the boundaries of the territory served by other telephone organizations; and (c) the achievement of the area coverage objective. At a later date, due consideration must be given to technical and economic factors, and to applicable State laws and rules of State and local regulatory bodies.

PLANNING THE MEETINGS. All residents within the service areas as so determined should be notified of the arrangements for the meetings and their interest in attendance should be stimulated by wide publication through all available channels -- newspapers, radio, circular letters, etc.--of the time, place and purpose of the meetings. To assure success from the start, the largest possible attendance should be on hand for each meeting. Representatives of all local farm and civic organizations and agencies, including rural electric cooperatives, should be invited to attend and participate. It is particularly important that officers or representatives of any mutual or cooperative telephone enterprise and of rural electric cooperatives already operating in any part of the area be invited to attend and to express their views. Existing rural telephone systems might well serve as a nucleus for the organization of the new telephone cooperative. Existing rural electric cooperatives can make effective contributions to achieving the objective of area coverage rural telephone service. All persons attending the meeting should register their names and addresses on cards provided for this purpose.

Whenever possible, REA, upon request, will arrange to have a representative attend to explain the rural telephone program. Additional copies of the material in the envelope at the back of this pamphlet which is suitable for distribution are available upon request to REA.

### INITIAL MEETINGS - PROGRAM

LOCAL INITIATIVE REQUIRED. A temporary chairman should be named at each meeting. It should be made clear from the outset that the purpose of the meeting is to ascertain the extent of the effective community interest in securing adequate telephone service, and to outline the requirements for obtaining this service with REA assistance. It must be determined whether the people of the community will assume the initiative in solving their telephone problem.

Since the proposed cooperative will usually start with no property or assets, it will be necessary for the prospective members to furnish some equity capital in the form of membership fees or subscriptions to stock. (See PA-83, pages 6 - 7, for a discussion of security requirements.) The exact amount of equity capital required will vary with the size, character and cost of the telephone system needed and cannot be determined definitely until REA has examined the loan application. The amount will probably be in the neighborhood of \$25 to \$50 per subscriber.

To evidence his interest in securing service, the prospective member should (a) sign a membership or stock subscription application on a form which should be read and discussed at the meeting; (b) pay at least part of the membership fee or stock subscription; (c) agree to pay the balance, if any, when the equity requirement is fixed; and (d) agree to give the cooperative a right-of-way easement.

If initial payments of at least \$25 are received from prospective members, the balance, if any, need not be paid by the subscriber until his telephone is installed. If initial payments of less than \$25 are received, the balance needed to meet equity requirements should be paid when an REA loan is obtained. In no case should the initial payments be less than \$5.

The exact form of subscriber application will depend upon whether the type of organization to be formed is (1) a non-stock membership organization; (2) a stock organization, with non-dividend bearing shares, entitling the holder to only one vote; (3) a stock organization, with limited dividends and one vote per shareholder; or (4) a combination of the foregoing.

The decision as to the type of organization to be formed should be made by the prospective subscribers subject, of course, to State law requirements, and to local, State and Federal tax and regulatory provisions which may vary according to the type of organization formed. Sponsors should consult with REA regarding the type of organization that will comply with legal and other requirements in each particular case. REA will also make available to sponsors an appropriate subscriber application form. Sponsors should write REA about these matters well in advance of the meeting dates.

JOINT USE OF ELECTRIC FACILITIES. If an existing REA-financed cooperative is furnishing electric service in the area, the feasibility of joint use by the proposed new telephone cooperative of the electrical facilities, either already in operation or under construction, should be examined. The extent to which these electric facilities are serving persons attending the meeting should be determined by a show of hands. If the showing is substantial, it would be well to explain to the meeting that REA has already established procedures under which joint use of facilities by electric and telephone systems may be worked out (copies of the various documents pertaining to these arrangements are available upon request from REA). It should also be clearly indicated that the possibilities of joint use will be fully explored in order to achieve the most efficient and most economical service. It would also seem profitable to announce to the meeting that complete investigation will be made of the possibility of achieving other economies through joint arrangements with the electric cooperative such as maintenance and operation agreements and joint use of office and storage space.

POINTS TO BE EMPHASIZED. In presenting the program to the meeting, the following points should be emphasized:

(1) The importance of individual participation in the cooperative effort. The nature and method of operation of cooperative organizations and the obligation of members

to participate in their affairs should be thoroughly explained. It should be stressed that no individual member or subscriber will be personally liable for the debts of the cooperative and that individual liability will be limited to payment of the full membership fee or stock subscription and payment for telephone service rendered, and then only in the event an REA loan is made and the telephone system is built.

- (2) All REA loans are self-liquidating; they must be repaid with interest within the time agreed, and must be secured by a mortgage on the property of the cooperative.
- (3) The deposit on the membership fee or stock subscription will be refunded in the event the REA loan is not made or the telephone system is not built, less only actual out-of-pocket pre-loan expenses. The entire membership fee or stock subscription will be refunded in the event the system is built but it is found not feasible to serve the individual member or stockholder.
- (4) REA loans will be made to furnish telephone service on an area coverage basis--to the widest practicable number of rural consumers (see PA-83, page 1).
- (5) In accordance with the cooperative's objective of furnishing service at cost, rates will be no higher than necessary to meet the expense of operating and maintaining the system and repaying the REA loan.

SELECTION OF ORGANIZING COMMITTEE. If decision is reached at the meetings to proceed with the preparation of an "Application for Rural Telephone Loan," an Organizing Committee of not fewer than five persons should be selected. Only persons who will be members served by the system and who can represent geographically a portion of the membership should be selected. Great care should be exercised in selecting the committee in view of its functions and responsibilities and also because they will serve as incorporators and the initial directors or trustees of the cooperative when it is organized. The committee should designate a chairman.

The meetings should authorize the Organizing Committee to:

- (1) Solicit applications for membership, etc., in the name of the cooperative to be formed, collect membership fees and stock subscriptions; and expend such funds as are necessary in connection with the preliminary membership survey, the preparation of the application to REA for loan (AL-T-1), and the incorporation of the cooperative.
- (2) Prepare and submit an application to REA for a loan (on Form AL-T-1) in an amount estimated to be sufficient to construct the system to serve the community or communities.

(3) Incorporate the cooperative upon receipt of advice from REA that the preliminary information submitted on the application form warrants taking this step, and upon receipt from REA of detailed information and suggestions regarding incorporation.

To save time and travel expense, an effort should be made at the meeting to secure as many signed applications together with membership fee or stock subscription deposits as possible. At the time these applications are signed at the meetings they should be filled out as completely as possible.

#### ORGANIZING COMMITTEE

The committee will appoint, and direct, plan and schedule the work of membership survey leaders and be responsible for the systematic and satisfactory completion of all survey activities. It will act as recipient of the membership fees and deposits, record and file all membership applications secured, compile the member-survey tabulations and ascertain the proper location of members and prospective members on the pre-loan maps.

Members of the committee should receive their out-of-pocket expenses which may be paid from the membership funds, the membership funds to be reimbursed if and when an REA loan is made.

The Organizing Committee should make a careful study of all existing telephone facilities in the proposed service area. Where the owners of existing facilities desire to dispose of their properties, preliminary discussions may be conducted to obtain all available data concerning the physical characteristics of the systems and to obtain some indication as to the terms under which the property of the existing systems would be available to the new cooperative. However, no commitments should be made on behalf of the new cooperative-to-be. In some cases, if existing cooperative properties are acquired, it may be possible to arrange for the transfer of the property to the new cooperative in exchange for a credit against the membership fee or stock subscription of the members or owners of the existing organization.

The Organizing Committee should also make a study of all existing electric facilities in the proposed service area. Where joint use of an electric cooperative's facilities is contemplated, the matter should be discussed with the officers of the electric cooperative. The committee should arrange, if possible, to secure copies of the electric cooperative's system map for the proposed telephone service area showing all members of the electric cooperative receiving electric service, properly identified by numbers which should be related to a list of members showing their names and addresses. These maps and the lists of members will be most useful in making the membership survey hereafter referred to and later in securing amendment of the electric cooperative easements where necessary to permit joint use. The electric cooperative can help in getting information about the telephone plans to its members through its newsletter and by distributing membership application blanks from its office. Full use of these facilities will greatly decrease the time and cost involved in these preliminary steps.

The committee should not at this time make any commitments or obligate itself for legal or engineering services or for the purchase of equipment or other property.

#### MEMBERSHIP SURVEY

SELECTION OF SURVEY LEADERS. A sufficient number of men and women should be pledged as survey leaders who are to solicit membership. Usually the County Agricultural Agent, Home Demonstration Agent, rural electric cooperative leaders and organization sponsors can materially assist the Organizing Committee in the selection of these survey leaders. The men and women selected should be well acquanited with the people residing in the section in which they will work. Each leader should be given a copy of this Form AL-T-2 and other available literature, and they, as well as the Organizing Committee, should familiarize themselves with its contents. Under the direction of the committee, these leaders will secure membership applications, collect membership fee deposits and give receipts for same. Before the survey, a meeting should be held to instruct leaders in all details.

MEMBER SIGN-UP. The survey leaders will visit every farm, home and rural establishment in the assigned territory and carefully explain the telephone loan program and the cooperative's plans. A few days before they start out, it will be well for the Organizing Committee to send out a letter to residents of the area surveyed, explaining the plans and developments to date and announcing the forthcoming survey.

In obtaining memberships, the survey leader should make it clear that the membership fee is not paid to the Government, but directly to their own organization to be formed--the cooperative. This money will be handled by the project survey leaders and Organizing Committee for deposit in a bank for the general account of the cooperative-to-be, to be spent for survey and mapping expenses incurred in starting the new organization. The membership fee, when fully paid, will entitle the member, (when accepted) to a vote in the control and a share in the benefits of the cooperative. The survey leaders should present the signed membership applications, fees and carbon copies of the receipts given to members to the Organizing Committee at least once a week and secure a receipt for same.

The Organizing Committee will give receipts for moneys and papers turned in to them by the survey leaders, make a book record of such transactions, and deposit the fees collected in a reputable bank.

Each deposit slip must be supported by a detailed list showing name and amount collected from each member. All expenses during the pre-loan period should be paid by check drawn against the membership account. For each such disbursement a detailed receipted invoice in duplicate should be secured. It is very important that a record be made of all financial transactions and that all receipts and invoices be carefully preserved for use in connection with the installation of bookkeeping records in case a loan is made.

The membership application will be signed by the prospective subscriber, and may be made out in the name of one person or in the name of both husband and wife jointly. If a joint membership is desired, both

the husband and wife should sign the application. This will be the cooperative's authority to make out a joint membership certificate when the application is accepted. The signed application must be retained by the cooperative but a copy of the application should be left with the signer. Be sure to have filled in the blank showing the measured or closely estimated distance of the applicant's house from the road.

To facilitate the work of the survey leaders and to identify the areas to which they are assigned, county maps should be obtained and the appropriate portion of it given to the survey leader who will be assigned that section for the membership survey. When the membership survey is completed and the survey data obtained is shown on the county maps (prepared in accordance with the instructions given in the next section), the maps will serve as membership survey maps. When the survey leader makes his report to the Organizing Committee, the signed members and all prospective members should be located on his section of the map.

MEMBERSHIP SURVEY TABULATION. At the same time, the Telephone Membership Survey Tabulation sheet (Form AL-T-3, attached) should be filled out in triplicate by the survey leader who should be careful to (a) relate each sheet to the county map section by number, as indicated; (b) locate each member and prospective member by township, range and section where applicable, or by other appropriate geographical description; (c) identify the premises of each member and prospective member on the county map by the number as used on the Telephone Membership Survey Tabulation sheet (in the case of a member, use application number; in the case of a prospect, use separate number series); (d) indicate whether a residential or business subscriber; (e) show name of town from which central office (switchboard) service is preferred; and (f) indicate whether or not the member or prospective member has electric service and by whom such service is furnished.

Where electric cooperative system maps have been obtained for use in the membership survey, the appropriate portion of the map should be given to the survey leader who will be assigned that section for the membership survey and will be used by him in identifying members or prospective members who have electric service. Since every resident in the area should be considered a prospective subscriber, the location of every resident of the area should be shown on the membership survey map and identified on the Telephone Membership Survey Tabulation sheet by number. In each case, the measured or closely estimated distance from the road of the applicant's or prospect's premises should be shown.

After submission of preliminary data to REA for examination prior to a loan, it is recommended that the member sign-up continue, following the procedure outlined herein.

#### PREPARATION OF MEMBERSHIP SURVEY MAP

While it is not required of a new organization that it submit detailed maps showing its proposed telephone lines and system at this time in connection with its application, it is of the utmost importance that the maps used on the membership survey be prepared as outlined above and submitted to REA with the application. Uniform symbols should be

employed in identifying all applicants and prospects and existing facilities on the maps in their proper locations, as follows:

#### O2 PROSPECTIVE SUBSCRIBER -

Unshaded circle (about one-eighth inch).

If the map already contains a printed square identifying subscriber's premises, place circle around square. Place application number adjacent to circle corresponding to the number shown on Telephone Membership Survey Tabulation.

#### SIGNED APPLICANT -

Shaded circle (about one-eighth inch).

If the map already contains a printed square identifying subscriber's premises, place shaded circle around square. Place application number adjacent to circle corresponding to the number shown on Telephone Membership Survey Tabulation.

#### T---- EXISTING TELEPHONE LINES -

Broken line with "T".

If there is more than one telephone company in the area, identify each line by the name of the company written legibly on the line.

#### EXISTING TELEPHONE EXCHANGE -

Unshaded square (about three-eighths inch).

Use an unshaded square to indicate each existing telephone exchange in the area, and label with the name of the company.

#### EXISTING POWER LINE (REA) -

Solid line.

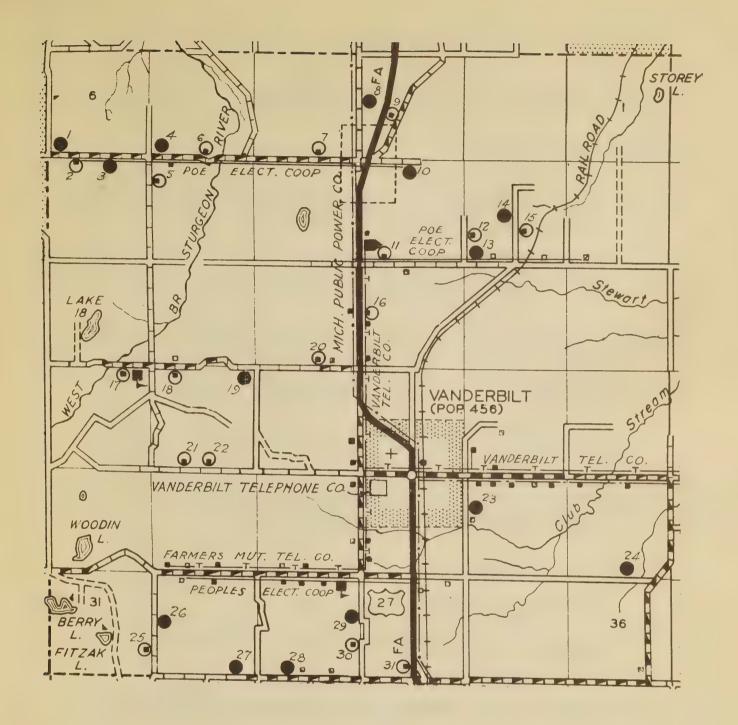
Indicate all existing REA-financed cooperative power lines in area, and label with co-op name.

#### EXISTING POWER LINE (OTHER THAN REA) -

Dot-dash line.

Indicate all rural power lines other than REA-financed, and label with company name.

A complete legend should be placed on each map indicating the symbol representation (conforming to the above). On the following page is an illustration of the use of the symbols on a small section of county map.



County maps may be obtained from the State Highway Department or possibly from the county surveyor.

When completed, one copy of the map should be retained and two copies submitted to REA together with two copies of the Telephone Membership Survey Tabulation (AL-T-3) as part of the application. Photostats are acceptable when available.

#### EXPENSES OF MEMBERSHIP SURVEY

The sums listed below are maximum amounts out of membership funds that may be used to meet expense of membership survey which will be reimbursed out of REA loan funds if and when the loan is made.

#### PERMISSIBLE EXPENSES.

- 1. Securing signed membership applications and collecting membership fees. In connection with membership survey the cost is not to exceed \$1.00 per member.
- 2. Samples of all suggested membership forms will be furnished by REA. These forms can be reproduced in the quantities needed for use in connection with the membership survey.

It must be remembered that preliminary expenses must be paid from the membership fees and cannot be reimbursed by the Rural Electrification Administration unless a feasible system is developed and the loan is made. The preliminary expenses should be held to a minimum and, if possible, volunteer workers should be used.

- 3. Automobile mileage not exceeding .05¢ per mile for Organizing Committee and survey leaders.
- 4. Miscellaneous expenses should not exceed \$100.00. This would include mimeographing, reproduction of membership forms, photostating and other miscellaneous items.

#### SUMMARY OF PROJECT DATA TO BE SUBMITTED TO REA FOR EXAMINATION.

- 1. Membership survey maps IN DUPLICATE.
- 2. Certified Telephone Membership Survey Tabulation Form AL-T-3 IN DUPLICATE.

# PREPARATION AND SUBMISSION OF APPLICATION FOR LOAN (AL-T-1)

Up to this point, the new project will not have been incorporated, nor expended funds or obligated itself for engineering, legal or other outside assistance. Nor should it be necessary to make such expenditures or incur such obligations in connection with the preparation and submission of the loan application. This form may be handled as follows:

#### ITEM

- 1. Show names and addresses of members of Organizing Committee, and proposed cooperative name.
- 2. Check "(d)" but indicate that the cooperative will be incorporated in the future. It will not be necessary to indicate what State law will be used for incorporation. REA will assist

new cooperative borrowers in organizing by making available model articles of incorporation and by-laws conformed to statutory requirements in your State.

3. Amount of loan applied for should be estimated if possible. If no cost data are available, furnish your best estimate.

If this bulletin is closely followed and the application form carefully filled out, it will assist REA in arriving at an estimate of the amount required.

- 4. It would be advisable, where the applicant does not know what it requires or is uncertain, to request a 35-year repayment period.
- 5. Supply all information available and your plans in detail. Where it is planned to acquire existing properties, all available information covering the facilities should be supplied.
- 6. A first mortgage on the property will be required. Indicate here also the equity capital proposed to be furnished by members.
- 7. (a) and (b) may be disregarded by new organizations. Answer (c).
- 8. The preliminary survey map already referred to will furnish much of the information needed. If the service area boundaries are known, indicate them on the survey map; also show telephone companies operating in or adjacent to your proposed service area. If an REA-financed electric system lies within the proposed service area, so indicate and report whether there has been consideration or discussion of the possibility of joint use of the electric system's poles.
- 9. Answer as fully as possible.
- 10. Answer as fully as possible and relate the answer to the map in Item 8.
- 11. Answer this, if you know.
- 12. Answer if applicable.
- 13.) These items should be answered by a new cooperative only in
- 14.) terms of what its sponsors propose in the way of cooperative
- 15.) organization.
- 16.)
- 17.) New cooperatives do *NOT* answer.
- 19.)

The Chairman of the Organizing Committee should sign the Signature: application, and indicate where he wishes to receive mail. SUBMIT THE APPLICATION FORM IN DUPLICATE. Add all pertinent information available on separate sheet if necessary.

#### FURTHER STEPS

Upon receipt of the application form properly filled out, REA will examine it. If adequate information is supplied, REA will (a) estimate the cost of a system required to provide the proposed service; (b) make a determination as to whether the proposed membership fee or stock subscription per subscriber will furnish adequate equity capital; (c) establish a tentative rate schedule; and notify you as to its determinations. Further information may be required but if the information initially submitted is adequate, REA will advise you (a) to incorporate and furnish information and assistance in this connection, as outlined above, and (b) to collect the balance of the membership fees or stock subscriptions and make appropriate arrangements for complying with REA equity requirements. The cooperative will be notified as to what legal and engineering services and further steps will be required.

#### TELEPHONE MEMBERSHIP SURVEY TABULATION

(Form AL-T-3)

A sample tabulation sheet appears on the back of this sheet. In case you wish to use exactly this form, the sample can be used as copy for offset printing.

A complete record of the name and map number of every signed and prospective member should accompany the membership survey map and application when submitted to REA. Be sure that every member on the map is listed in consecutive order and accounted for on this tabulation sheet.

Tabulation sheets shall be prepared in triplicate—the original and duplicate forwarded to REA with the membership survey map and application—the triplicate to be retained by the cooperative for its records.

MAP NO.

#### TELEPHONE MEMBERSHIP SURVEY TABULATION

| М      | AP NO   |                 |   |      |         |                       |                              |   | SHEET NO.                           |  |
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| *      | RR = Residence, Rural RT = Residence, Town BR = Business, Rural |                 | CERTIFIED BY  TITLE: CHAIRMAN, ORGANIZING COMMITTEE  (Check one) SECRETARY OF |      |         |                       |                              |   |                                     |  |
|        | BT = Business, Town   | (Ch             |   |      |         |                       |                              |   | of Cooperative                      |  |
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# The RURAL TELEPHONE LOAN PROGRAM

As provided by Public Law 423 81st Congress, amending The Rural Electrification Act of 1936

RAA

UNITED STATES
DEPARTMENT OF AGRICULTURE
Rural Electrification Administration
Washington, D. C.

**PA-83** 

December 1949

This bulletin sets forth the basic provisions of the Rural Electrification Act relating to loans for rural telephone service, together with the principal standards and requirements that should be considered by prospective borrowers.

## THE RURAL TELEPHONE LOAN PROGRAM

The Rural Electrification Act of 1936 was amended on October 28, 1949 to provide for the improvement and expansion of rural telephone service. In general, the aim is to furnish loans and technical assistance in the rural telephone field similar to that which has been provided for rural electrification.

#### **Area Coverage**

The basic policy established by the Congress for guiding the administration of the rural telephone loan program is set forth in the preamble to the telephone act, as follows:

of the Congress that adequate telephone service be made generally available in rural areas through the improvement and expansion of existing telephone facilities and the construction and operation of such additional facilities as are required to assure the availability of adequate telephone service to the widest practicable number of rural users of such service (Public Law 423, 81st Cong.).

Telephone loan applications will be considered on the basis of whether they will result in providing adequate telephone service to the widest practicable number of rural subscribers. REA will endeavor to carry this policy into action in order that farmers and other rural people generally may enjoy efficient and economical telephone service.

#### Borrower Eligibility and Preference

To effectuate the telephone loan program, the act provides that:

empowered to make loans to persons now providing or who may hereafter provide telephone service in rural areas and to cooperative, nonprofit, limited dividend, or mutual associations (Title II, Sec. 201).

The term "persons" includes "any natural person, firm, corporation, or as-

sociation" (Title I, Sec. 13). Loans will not be made to individual subscribers for the installation of their own

station equipment.

Public agencies, municipalities or other governmental bodies are not eligible to participate in the rural telephone loan program, except that cooperative or mutual associations which may be technically designated as "public bodies" by State law are not thereby made ineligible.

The act also provides:

The Administrator, in making such loans, shall give preference to persons providing telephone service in rural areas, and to cooperative, nonprofit, limited dividend, or mutual associations: And provided further, That for a period of one year from and after the effective date of this title (October 28, 1949) applications for loans received by the Administrator from persons who on the effective date of this title are engaged in the operation of existing telephone service in rural areas shall be considered and acted upon before action is taken upon any application received from any other person for any loan to finance the furnishing or improvement of telephone service to substantially the same subscribers (Title II, Sec. 201).

The Report of the House and Senate conferees on the telephone legislation (H. Rep. No. 1450) specifically states, "As amended by the committee of conference, this preference sentence provides that for a period of 1 year after the effective date of the legislation, when two or more applications are received covering telephone service to substantially the same subscribers, the application, if any, from the person then engaged in providing the telephone service to those subscribers shall be considered and acted upon before action is taken upon any other applica-tion covering substantially the same subscribers. . . The provision agreed to by the committee of conference extends the preference period to 1 year and requires that during that time the Administrator must take action upon the applications of existing companies before he can consider any conflicting applications."

Thus, loans may be made to a new organization before October 28, 1950,

only if:

1. No existing company engaged in serving rural areas has made application to serve substantially the same sub-

scribers; or

2. An application for a loan from an existing company to serve substantially the same subscribers has been considered and found not to comply with the requirements of the act.

#### **Purpose of Loans**

Loans may be made "for the purpose of financing the improvement, expansion, construction, acquisition, and operation of telephone lines, facilities or systems to furnish and improve telephone service in rural areas." (Title II, Sec. 201.)

Section 201 of the Act requires that:

The Administrator in making such loans shall, insofar as possible, obtain assurance that the telephone service to be furnished or improved thereby will be made available to the widest practical number of rural users.

#### Loans may be made for:

ess of persons furnishing telephone service in rural areas; *Provided*, That such refinancing shall be determined by the Administrator to be necessary in order to furnish and improve telephone service in rural areas: *And provided further*, That such refinancing shall constitute not more than 40 per centum of any loan made . . . (Title II, Sec. 201).

Rural telephone loans will not be made for refinancing existing indebtedness merely to enable borrowers to obtain a lower rate of interest or a longer amortization period. Such loans will be made only when necessary to improve or extend service in rural areas.

Loans will not be made merely for the purpose of effecting the consolidation of telephone organizations. A telephone system resulting from a merger or consolidation, however, may obtain loans for the improvement and extension of rural telephone service in the combined "It is not the intention" of the Congress, as indicated explicitly by the Report of the House and Senate conferees on the telephone legislation (H. Rep. No. 1450) "to prohibit a number of existing rural telephone companies, systems, or lines from combining voluntarily, forming a new company or association, and receiving a loan for the improvement of telephone service in their combined areas."

The authority to finance acquisitions, as used in Title II, Sec. 201 (quoted above), includes "authority for loans for the purpose of the acquisition of one company by another or of lines or facilities, where such acquisition is merely incidental to the main purpose which must be the improvement or extension of rural telephone service" (H. Rep. No.

1450).

#### **Definition of Rural Area**

As already stated, the purpose of the rural telephone act is the improvement and extension of telephone service in rural areas. The act provides that:

... the term rural area shall be deemed to mean any area of the United States not included within the boundaries of any incorporated or unincorporated city, village, or borough having a population in excess of one thousand five hundred inhabitants (Title II, Sec. 203 (b)).

However, the act provides further that "When it is determined by the Administrator to be necessary in order to furnish or improve telephone service in rural areas, such loans may be made for the improvement, expansion, construction, acquisition and operation of

telephone lines, facilities, or systems without regard to their geographical location." (Title II, Sec. 201.) This provision permits the Administrator to make loans for telephone facilities that are located within cities, villages or boroughs of more than 1500 inhabitants, if such facilities are necessary to the provision of adequate telephone service outside the boundaries of such places.

#### **Definition of Telephone Service**

... the term "telephone service" shall be deemed to mean any communication service whereby voice communication through the use of electricity between the transmitting and receiving apparatus, is the principal intended use thereof, and shall include all telephone lines, facilities, or systems used in the rendition of such service . . . (Title II, Sec. 203 (a)).

Thus, telephone service includes voice communication by conventional wire circuits, or carrier circuits over either telephone or electric service lines, and radio telephony.

#### **Loan Terms**

Title I, Section 4 of the Act provides that "all such loans shall be self-liquidating within a period of not to exceed thirty-five years, and shall bear interest at the rate of 2 per centum per annum." The self-liquidating requirement means that there must be sufficient revenues from the borrower's system, in excess of operating expenditures (including maintenance and replacement), to repay the loan.

The actual loan period for any particular loan may be less than the maximum authorized period of 35 years, depending on the circumstances of each individual case. Funds will not be advanced until needed by the borrower to meet approved obligations. While interest will be charged from the date funds are advanced, payment of principal and interest may be scheduled to

begin after the construction or development period, if deemed advisable by REA. Such scheduling, however, will not add to the length of the loan period initially agreed upon.

#### **Security Requirements**

Loans under this section shall not be made unless the Administrator finds and certifies that in his judgment the security therefor is reasonably adequate and such loan will be repaid within the time agreed . . . (Title II, Sec. 201).

The making of loans for financing the improvement and extension of rural telephone service involves financial hazards such as (1) the possibility of subscribers giving up service when economic conditions are unfavorable, (2) sleet and storm damage, and (3) the relatively low level of earnings of rural telephone systems under average conditions. Because of these hazards, each borrower will be required to provide equity to supplement the amount of the loan. Among the factors which will be taken into consideration in determining the amount of equity to be required in particular instances are the following:

1. The condition and value of the physical telephone properties offered as security for repayment of the

loan.

2. The system revenues, present and prospective, available for repayment of the loan with interest, as scheduled.

3. The size, character and operating

efficiency of the system.

4. The extent to which widespread community interest, as represented in the ownership, management and patronage of the telephone enterprise, tends to assure continuity of (a) subscriber use of the service, and (b) efficient management and control.

5. The extent to which the net worth of the borrower may increase dur-

ing the life of the loan.

6. The extent to which REA guidance and assistance in management and operating practices will tend to assure efficient system operation and maintenance of adequate telephone service.

Depending on the extent to which these factors are present in each case, the borrower will be required to provide equity, supplementing the loan, amounting to 10 to 50 percent of the total value of the borrower's system, including the facilities financed by the REA loan. In some cases even more than 50 percent equity may be necessary.

In all cases where applicants are subject to the jurisdiction of State regulatory bodies with respect to financing the requirements of the State regulatory

bodies must be met.

#### **Loan Document Provisions**

In order to assure continued adequacy of the security and the quality of telephone service over the life of the loan, suitable provisions will be included in the loan documents. Certain standard provisions will be applied generally to all borrowers, including the following:

1. Mortgage Requirements.—Normally, a first mortgage will be required on the borrower's entire system. In the case of loans to finance telephone facilities which do not in and of themselves constitute self-contained operating systems or units, it will be necessary for the borrower, in addition to the mortgage, to furnish adequate assurance, in the form of contractual and other security arrangements, that continuous and efficient telephone service will be rendered.

2. Area Coverage.—Borrowers will agree to accomplish area coverage telephone service by making service available to all applicants for service within their rural service areas, as rapidly as practicable.

3. Advance and Use of Loan Funds.—
Borrowers will use loan funds only for the purposes agreed upon.
Loan funds will be advanced to borrowers only as needed to meet approved obligations. Interest will be charged from the time when funds are actually advanced.

4. Construction Standards.—Borrowers will agree to follow construction standards acceptable to REA; to expend loan funds for equipment and materials of acceptable quality; and to make arrangements for engineering services acceptable to REA. REA will retain the right to inspect construction for compliance by the borrower with its obligation under the loan documents.

5. Audits, Financial and Operating Statements.—Borrowers will agree to maintain a system of accounts satisfactory to REA and subject to REA inspection; and to submit specified financial and operating reports periodically, as long as any portion of the loan remains outstanding. Borrowers will also agree to periodic audits of their records by REA or by certified public accountants.

6. Sales, Salaries, Dividends, Service and Operating Contracts and Arrangements.—Borrowers will agree not to sell or otherwise dispose of facilities or equipment financed with loan funds or furnished as security, except with REA approval or until the loans are fully repaid. As long as any portion

of a loan remains outstanding, REA reserves the right to pass upon the reasonableness of all expenditures, and contracts and arrangements affecting security, such as salaries, dividends, service and operating contracts and arrangements.

7. Maintenance and Operation.—Borrowers will agree to maintain their systems in good repair, working order and condition; to make necessary replacements and alterations; and to provide adequate telephone service.

8. Insurance.—Borrowers will agree to take out and maintain adequate insurance and fidelity coverage, as long as any portion of the loan

remains outstanding.

9. Rates, Charges and Reserves.—Borrowers will, subject to applicable laws and rules and orders of regulatory bodies, establish rates and charges which will yield sufficient revenue to cover all operating and maintenance expenses, including replacement, taxes and insurance, and all payments of principal and interest on the loan. Such rates and charges shall also be consistent with the achievement of the basic purpose of the telephone legislation, namely, "to assure the availability of adequate telephone service to the widest practicable number of rural users." Borrowers will be required to establish and maintain proper reserves for operating expenditures, replacements, payments on loans and other purposes as specified by REA.

10. State Regulation.—In accordance with Section 202 of the Act, borrowers will agree to comply with applicable State laws and the re-

quirements of State commissions, boards or other bodies having jurisdiction over them.

In addition to the foregoing standard provisions which are generally applicable to all borrowers, provisions such as the following may also be made a part of the loan documents, depending upon the security situation in each case, including the factors listed under the heading "Security Requirements":

1. Approval by REA of the borrower's

\_ managerial personnel.

2. Removal and replacement of managerial personnel, when, in the opinion of REA, the Government

security requires it.

- 3. REA approval of agreements between the borrower and third parties relating to construction or operation of the system, such as agreements pertaining to switching service, toll service, acquisition of existing facilities, purchase of land, materials, supplies and equipment.
- 4. Agreement to keep any property constructed, purchased or acquired free from any liens or encumbrances other than the REA mortgage.

5. Approval by REA of the construction of any additions, extensions or improvements to the borrower's

system.

6. Agreement to incur indebtedness in addition to the REA loan only

with REA's consent.

7. Adherence to accepted operating and maintenance procedures and practices, personnel training programs, office procedures, and equipment maintenance programs.

8. Transmission promptly to REA of certified copies of the minutes of all meetings of members and of

directors.

9. In the case of cooperative, nonprofit, limited dividend and mutual association borrowers, agreement not to pay salaries to directors. Directors' fees and expenses will be sub-

ject to REA approval.

10. As a means of safeguarding the Government loan through a broad base of subscriber ownership and control, agreement by cooperative, nonprofit, limited dividend and mutual associations to:

(a) Establish voting on the principle of "one member—one

vote."

(b) Make membership available to all subscribers upon receipt of membership fee.

(c) Credit to subscribers in proportion to patronage all payments for service in excess of cost, other than payments

provided for in (d).

(d) Declare or pay no dividends, except that dividends not exceeding 4 percent per annum may be paid on capital furnished as equity in connection with the loan.

11. In the case of a cooperative, non-profit, limited dividend or mutual association borrower, agreement that REA shall have the right to appoint a supervisor to assume temporary management when found necessary by REA to protect the Government security and the members' interests and to achieve the objectives for which the loan was made.

#### **Duplication of Facilities**

Loans shall not be made "in any State which now has or may hereafter have a State regulatory body having authority to regulate telephone service and to require certificates of convenience and necessity to the applicant unless such certificate from such agency is first obtained." (Title II, Sec. 201.) It will be the responsibility of the applicant to obtain from the State authority, where necessary, the required certificates of convenience and necessity or franchises, approval to borrow, and approval of

rate schedules.

"In a State where there is no such agency or regulatory body legally authorized to issue such certificates to the applicant, no loan shall be made under this section unless the Administrator shall determine (and set forth his reasons therefor in writing) that no duplication of lines, facilities, or systems providing reasonably adequate services will result therefrom." (Title II, Sec. 201.) In such cases, applicants will be required to supply the necessary information.

#### Where to Apply for Loans

All applications should be made directly to the Rural Electrification Administration, United States Department of Agriculture, Washington 25, D. C. It will be unnecessary and undesirable to retain the services of any agents or representatives, either in Washington or locally, to assist in obtaining a loan. No part of any loan secured from REA may be used in payment for such services. This does not mean that applicants should not accept the assistance of farm organizations, local Extension Service leaders, cooperative and other organizations and associations interested in advancing the program. REA will advise applicants of any financial, legal, or engineering services that may be required.

**Applications** 

Applications furnishing preliminary information in connection with pro-

posed loans will be accepted on forms provided by REA. After the information is examined, the applicant will be notified of any further steps to be taken. Applicants are advised not to incur expenditures for audits, incorporation, appraisals, or the assembly of other information until advised to do so by REA.

Application forms and copies of the Rural Electrification Act are available on request.

U. S. GOVERNMENT PRINTING OFFICE: 1950



#### UNITED STATES DEPARTMENT OF AGRICULTURE

RURAL ELECTRIFICATION ADMINISTRATION

#### APPLICATION FOR RURAL TELEPHONE LOAN

All prospective borrowers are requested to submit this form in duplicate directly to the Rural Electrification Administration, U. S. Department of Agriculture, Washington 25, D. C. It is unnecessary to employ engineering, legal, or other outside assistance in connection with the preparation or submission of preliminary information on this form.

The information to be supplied herein is for the purpose of initially determining whether the applicant is eligible for a loan under Title II of the Rural Electrification Act, as amended, to provide for rural telephone service. After review of the preliminary information, and in the event it appears that the applicant may be eligible, REA will inform you as to what additional information may be required, and the further steps to be taken in connection with your application.

New Organizations. Applicants not now operating telephone facilities should note that they are not to furnish information under items 16, 17, 18, and 19. Additional information concerning a new organization may be submitted on attachments to this form.

| 1. | . Name of applicant  |  |
|----|--|--|
|    | Address: Street  | City   |
| 2. |  | State  |
|    | If incorporated, indicate State law under which incorpor   | ated   |
| 3. | . Amount of loan applied for: \$   |  |
|    | Length of repayment period desired: years.  Purpose of loan. (Explain the purposes for which loan f for each purpose—for example, rebuilding existing lines, | central office equipment, extensions to new sub- |
|    | scribers, refinancing, acquisition of existing facilities, etc   | .)   |
|    |  |  |
|    |  |  |
|    |  |  |
| 6. | Security to be offered for repayment of loan   |  |
|    |  |  |
|    |  |  |
|    |  |  |

| 6.  | (a) Date business was established   |
|-----|---|
|     | (b) Date business was acquired by applicant   |
|     | practicable number of rural users in the area?  |
|     |   |
|     | •   |
|     |   |
|     |   |
|     | c) Number of applications for service on hand: Rural* Nonrural  d) How many new rural subscribers will be served by the facilities to be financed by this loan?   |
|     | e) How many present rural subscribers will receive improved service as a result of this loan?   |
| 0.  | ive names of other telephone companies operating in or adjacent to your area shown on the map sub   |
|     | itted   |
|     |   |
|     |   |
|     |   |
| .1. | tate regulatory requirements:  (a) Will you be required under your State law to obtain certificate of convenience and necessity fo proposed construction? Yes   No   If answer is "Yes", have you obtained such certificate for proposed construction? Yes   No   No   No   No   No   No   No   N |
|     | (b) Will you be required under your State law to obtain authority from a State regulatory body t borrow funds? Yes ☐ No ☐   |
| 2.  | are you involved in any litigation? Yes  No  If answer is "Yes", describe briefly   |
|     |   |
|     |   |
|     |   |

| ITEMS 13   | 14    | AND | 15 T | ORE  | CHIDDI IED | ONLY | PV   | MITTITAL | OP | COOPERATIVE  | ODC   | ANTET | ATTONIC |
|------------|-------|-----|------|------|------------|------|------|----------|----|--------------|-------|-------|---------|
| TIEMES 15. | . 14. | AND | 10 1 | U DE | 3112214141 |      | 15 Y | VIIIIA   | UK | CINDPERATIVE | 11814 | A N   |         |

| 13. (a) Present number of voting members or shareho  | olders  |
|--|---|
| (b) Present number of subscribers who are not ve   | oting members or shareholders                         |
|  |   |
| 14. Amount of membership fee or share investment red   | quired:   |
| (a) Membership fee, \$   |   |
| (b) Share investment, \$   |   |
|  |   |
| <ul><li>(a) One vote to each member or shareholder</li><li>(b) One vote for each share</li></ul>   | Check one   |
| ITEMS 16, 17, 18, AND 19 ARE TO BE SUPPLIED ONLY BY ABUT SIGNATURE OF ALL APPLICA  |   |
| 16. Present telephone plant and service:   | In towns over In rural* Total 1,500 population        |
| (a) Number of exchanges  |   |
| (b) Number of subscribers  |   |
| (a) Wiles of pole line   |   |
| (c) Miles of pole line   |   |
| (d) Number of farmer-service lines switched  |   |
| (e) Type of service (Check one or more):  Dial $\square$ Common battery $\square$ M  | agneto $\sqcap$                                       |
| The state of the s | allic Both D  |
| (g) Hours of regular service per day   |   |
| 17. Financial condition. Attach copies of your most red  |   |
| able, please supply the following information:   |   |
| BALANCE  | SHEET   |
| (Date  | )   |
| Assets   | Liabilities   |
| Telephone plant:  Lines  | Invested or contributed capital or capital stock . \$ |
| Station equipment  | Surplus or other equity capital                       |
| Central office equipment   | Long-term debt  |
| Land and buildings   | Accounts and notes payable                            |
| Vehicles and other equipment   | Other current and accrued liabilities                 |
| Less: Reserve for depreciation   | Other liabilities (Specify)                           |
| Telephone plant less depreciation \$   |   |
| Investments  |   |
| Cash   |   |
| Materials and supplies   |   |
| Accounts and notes receivable  |   |
| Other assets (Specify)   |   |
| CONTRACTOR   |   |
| Total Assets   | TOTAL LIABILITIES                                     |
| *See footnote on page 2.   | 16-60614-1  |

## STATEMENT OF ANNUAL INCOME

| (Period covered: From  | to)   |
|--|---|
| Revenues:  |   |
| Local service (excluding switching revenues)   |   |
| Switching revenues   |   |
| Net toll revenues  |   |
| Other (including nonoperating revenues)  |   |
| Total revenues from all sources  |   |
|  |   |
| Expenses:  | <b>\$</b>   |
| Maintenance and other operating expenses   |   |
| Depreciation   |   |
| Taxes—Federal income   |   |
| Federal excise   |   |
| Property taxes   |   |
| All other  |   |
| Interest   |   |
| Other (including nonoperating expenses)  |   |
| Total expenses   |   |
| Net income   |   |
|  | ••  |
| 18. Rate schedules:  |   |
| (a) Attach rate schedules now in effect.   |   |
| (b) Do you have a change in rates pending before   | re your State regulatory body? Yes \( \simega \) No \( \simega \) |
| If answer is "Yes", attach proposed schedules.   |   |
| (c) Do you plan any additional changes in rates?   | Ves [] No [] If answer is "Yes" explain                           |
| (c) Do you plan any additional changes in faces.   | 105 [ 110 [ 11 answer is 105 , original                           |
|  |   |
|  |   |
|  |   |
|  |   |
| 19. Service extension policy. Do you make mileage or other   | r additional charges for line extensions? Yes                     |
|  |   |
| No ☐ If answer is "Yes", explain   |   |
|  |   |
|  |   |
| ,  |   |
|  |   |
|  |   |
|  |   |
| ***************************************  |   |
| to the state of th | unan request as a basis for detailed consideration                |
| It is understood that further information will be supplied,  | upon request, as a basis for detailed consideration               |
| of our application. The information contained herein is ac   | curate and complete to the best of the applicant's                |
| knowledge and belief.  |   |
| (Signed:)  |   |
|  |   |
|  |   |
|  |   |
|  | (Name of applicant)   |
|  |   |
| DateBy   |   |
| Date   | (Name of officer)   |
|  |   |
|  |   |
|  |   |
|  | (Title of officer)  |

# RURAL ELECTRIFICATION ACT OF 1936

WITH AMENDMENTS AS APPROVED

TO NOVEMBER 1, 1949

#### **FOREWORD**

The Rural Electrification Administration was created by Executive Order 7037 of May 11, 1935, under authority of the Emergency Relief Appropriation Act of 1935, approved April 8, 1935 (49 Stat. 115). Statutory provision for the agency was made in the Rural Electrification Act of 1936, approved May 20, 1936 (49 Stat. 1363, 7 U. S. Code, Chapter 31). REA became a part of the Department of Agriculture under Reorganization Plan II, effective July 1, 1939. Title IV of the Work Relief and Public Works Appropriation Act of 1938, approved June 21, 1938 ("Rural Electrification Act of 1938", 52 Stat. 818) authorized further borrowing from the Reconstruction Finance Corporation and added a requirement that borrowers from REA agree to use materials and supplies produced in the United States. Title V of the Department of Agriculture Organic Act of 1944, approved September 21, 1944 (58 Stat. 739) liberalized the terms of REA loans and removed the time limitation from its lending program. On December 23, 1944, the Rural Electrification Act was further amended to authorize REA to refinance certain rural electrification obligations owed to the Tennessee Valley Authority (58 Stat. 925). The Department of Agriculture Appropriation Act, 1948, approved July 30, 1947 (61 Stat. 546) further amended the Rural Electrification Act by transferring from the Reconstruction Finance Corporation to the Secretary of the Treasury the authority to make loans to REA. On June 29, 1948, the Rural Electrification Act was again amended to authorize REA to refinance certain additional rural electrification obligations owed to the Tennessee Valley Authority (62 Stat. 1070). On October 28, 1949, the Rural Electrification Act was further amended to authorize REA to make loans for the purpose of furnishing and improving rural telephone service (Oct. 28, 1949, ch. 776, 63 Stat. 948.)

RURAL ELECTRIFICATION ADMINISTRATION

UNITED STATES DEPARTMENT OF AGRICULTURE

| Revenues:   |  |  |  |  |  |  |  |
|---|--|--|--|--|--|--|--|
| Local service (excludit   |  |  |  |  |  |  |  |
| Switching revenues .  | GUIDE TO PROVISIONS OF RUR   | RAL ELECTRIFICATION ACT  |  |  |  |  |  |
| Net toll revenues .   |  |  |  |  |  |  |  |
| Other (including nono   | PROVISIONS RELATING TO ORGANIZATION AND GENERAL FUNCTIONS OF REA - APPLICABLE TO BOTH ELECTRIFICATION AND TELEPHONE OPERATIONS: TITLE I  |  |  |  |  |  |  |
| Total revenues fro  | TO BOTH ELECTRIFICATION AND TEL  | EPHORE OPERATIONS: ITTLE I   |  |  |  |  |  |
| Expenses:   | SEC. 1 - establishes REA in the Depart-  | SEC. 8 - makes Rural Electrification Act   |  |  |  |  |  |
| Maintenance and othe  | ment of Agriculture; directs that powers   | applicable to certain loans and contracts entered into prior to effective date of      |  |  |  |  |  |
| Depreciation  | of REA be exercised by Administrator.  | Act (May 20, 1936).  |  |  |  |  |  |
| Taxes—Federal income  |  |  |  |  |  |  |  |
| Federal excise  | SEC. 2 — authorizes REA Administrator to make rural electrification and telephone  | SEC. 9 - requires administration of Act and selection of employees on nonpartisan,     |  |  |  |  |  |
|   | loans: and to investigate and publicize  | nonpolitical basis.  |  |  |  |  |  |
| Property taxes  | condition and progress of rural electri-   | ere to many annual report to   |  |  |  |  |  |
| All other   | fication and telephone service.  | SEC. 10 - requires annual report to Congress.  |  |  |  |  |  |
| Interest  |  |  |  |  |  |  |  |
| Other (including nono)  | SEC. 3 - provides for REA electrification  | SEC. 11 - authorizes Administrator to appoint officers and employees and to            |  |  |  |  |  |
| Total expenses .  | and telephone loan funds; and establishes<br>State allotment formula for electrifi-  | make certain administrative expenditures.  |  |  |  |  |  |
| Net income  | cation loan funds (not applicable to tele-   |  |  |  |  |  |  |
|   | phone loan funds).   | SEC. 12 - empowers Administrator to extend payment of loans with certain               |  |  |  |  |  |
| 18. Rate schedules:   |  | limitations.   |  |  |  |  |  |
| (a) Attach ra   | SEC. 6 - authorizes appropriation of   |  |  |  |  |  |  |
| (b) Do you h  | funds for administering electrification and telephone loan programs.   | SEC. 13 - defines the terms "rural area", "farm", "person" and "Territory".            |  |  |  |  |  |
| If answer   | and terephone roan programs.   |  |  |  |  |  |  |
| (c) Do you pl   | And the state of t | SEC. 14 - technical "saving clause".   |  |  |  |  |  |
|   | <b>SEC. 7</b> — relates to acquisition and disposition by REA Administrator of property  | SEC. 15 - authorizes certain administra-   |  |  |  |  |  |
|   | securing loans; prohibits disposition  | tive expenditures.   |  |  |  |  |  |
|   | of property acquired by borrowers with   | "Buy American" provision (final pro-   |  |  |  |  |  |
|   | REA loan funds, unless REA Administrator approves, until loan is fully repaid.   | vision — on page 10).  |  |  |  |  |  |
| 19. Service extension x   | PROVISIONS RELATING TO RURAL ELEC  |  |  |  |  |  |  |
| 10. Solvette entertere p  | SEC. 4 - authorizes Administrator to make  |  |  |  |  |  |  |
| No 🔲 If answer i  | eligible borrowers, preferences, purposes, liquidation requirements.   | terms and conditions, security and self-   |  |  |  |  |  |
|   | SEC. 8 - authorizes Administrator to make  | loans to finance wiring installations and  |  |  |  |  |  |
|   | electrical and plumbing appliances and eq  | uipment. (Sec. 3 (a) prescribes a 5-year   |  |  |  |  |  |
|   | maximum maturity for such loans.)  |  |  |  |  |  |  |
|   | PROVISIONS RELATING TO RURAL TELEPHONE LOAMS ONLY: TITLE II  |  |  |  |  |  |  |
|   | telephone service; specifies eligible bo<br>preferences generally, preferences during<br>requirements, security and self-liquidat  | ng initial year of program, area coverage<br>ion requirements; authorizes financing of |  |  |  |  |  |
| It is understood that 1 of our application. The knowledge and belief. | nonrural facilities under certain conditions; authorizes limited refinancing of existing indebtedness; requires applicants to comply with State certification requirements, and, where such requirements are inapplicable, specifies the determination which the Administrator is required to make.  |  |  |  |  |  |  |
|   | SEC. 202 - recognizes jurisdiction of St   | ate regulatory bodies.   |  |  |  |  |  |
|   | SEC. 203 - defines the terms "telephone  | service" and "rural area".   |  |  |  |  |  |
|   | Statement of Congressional policy.   |  |  |  |  |  |  |
|   |  |  |  |  |  |  |  |
| Date  |  |  |  |  |  |  |  |
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## RURAL ELECTRIFICATION ACT OF 1936

WITH AMENDMENTS AS APPROVED TO NOVEMBER 1, 1949
(U. S. Code. Title 7, Chap. 31)

#### AN ACT

To provide for rural electrification, and for other purposes.

#### TITLE I

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled (as amended), That there is hereby created and established in the Department of Agriculture an agency of the United States, to be known as the "Rural Electrification Administration", all of the powers of which shall be exercised by an Administrator, under the general direction and supervision of the Secretary of Agriculture, who shall be appointed by the President, by and with the advice and consent of the Senate, for a term of ten years, and who shall receive a salary of \$15,000 per year. This Act may be cited as the "Rural Electrification Act of 1936".

(May 20, 1936, ch. 432,  $\S$ 1, 49 Stat. 1363; Reorg. Plan No. II,  $\S$  5, eff. July 1, 1939, 4 Fed. Reg. 2732, 53 Stat. 1434; Oct. 15, 1949, ch. 695,  $\S$ 5(a) 63 Stat. 880; Oct. 28, 1949, ch. 776,  $\S$ 2, 63 Stat. 948.)

SEC. 2. The Administrator is authorized and empowered to make loans in the several States and Territories of the United States for rural electrification and the furnishing of electric energy to persons in rural areas who are not receiving central station service, and for the purpose of furnishing and improving telephone service in rural areas, as hereinafter provided; to make, or cause to be made, studies, investigations, and reports concerning the condition and progress of the electrification of and the furnishing of adequate telephone service in rural areas in the several States and Territories; and to publish and disseminate information with respect thereto.

(May 20, 1936, ch. 432, §2, 49 Stat. 1363; Oct. 28, 1949, ch. 776.

(May 20, 1936, ch. 432,  $\S 2$ , 49 Stat. 1363; Oct. 28, 1949, ch. 776,  $\S 3$ , 63 Stat. 948.)

SEC. 3. (a) The Secretary of the Treasury is hereby authorized and directed to make loans to the Administrator, upon the request and approval of the Secretary of Agriculture, in such amounts in the aggregate for each fiscal year commencing with the fiscal year ending June 30, 1948, as the Congress may from time to time determine to be necessary, either without interest or at such rate of interest per annum, not in excess of the rate provided for in sections 4 and 5 of

this Act, as the Secretary of the Treasury may determine, upon the security of the obligations of borrowers from the Administrator appointed pursuant to the provisions of this Act or from the Administrator of the Rural Electrification Administration established by Executive Order Numbered 7037. Interest rates on the unpaid balance of any loans made by the Reconstruction Finance Corporation to the Administrator prior to July 1, 1947, shall be adjusted to the interest rate, if any, established for loans made after June 30, 1947, in accordance with the foregoing provision: Provided, That such obligations incurred for the purpose of financing the construction and operation of generating plants, electric transmission and distribution lines, or systems and for the purpose of financing the improvement, expansion, construction, acquisition, and operation of facilities to render telephone service shall be fully amortized over a period not to exceed thirty-five years, and that the maturity of such obligations incurred for the purpose of financing the wiring of premises and the acquisition and installation of electrical and plumbing appliances and equipment shall not exceed two-thirds of the assured life thereof and not more than five years. The Administrator is hereby authorized to make all such endorsements, to execute all such instruments, and to do all such acts and things as shall be necessary to effect the valid transfer and assignment to the Secretary of the Treasury of all such obligations, and to execute such trust instruments as shall be agreed upon by the Administrator and the Secretary of the Treasury providing for the holding in trust by the Administrator of all such obligations for the Secretary of the Treasury as security for loans to the Administrator heretofore made by the Reconstruction Finance Corporation or made or to be made by the Secretary of the Treasury. All rights, interests, obligations, and duties of the Reconstruction Finance Corporation arising out of loans made or authorized to be made to the Administrator are, as of the close of June 30, 1947, vested in the Secretary of the Treasury; the Reconstruction Finance Corporation is authorized and directed to transfer, as of the close of June 30, 1947, to the Secretary of the Treasury and the Secretary of the Treasury is authorized and directed to receive all loans outstanding on that date, plus accrued unpaid interest, theretofore made to the Administrator under the provisions of this Act, and all notes and other evidences thereof and all obligations constituting the security The Secretary of the Treasury shall cancel notes of the therefor. Reconstruction Finance Corporation, and sums due and unpaid upon or in connection with such notes at the time of such cancellation, in an amount equal to the unpaid principal of the loans so transferred, plus accrued unpaid interest through June 30, 1947. Subsequent to June 30, 1947, the Reconstruction Finance Corporation shall make no further loans or advances to the Administrator; and the Secretary of the Treasury is hereby authorized and directed, in lieu of the Reconstruction Finance Corporation, to lend or advance to the Administrator,

in accordance with the provisions of this subsection 3 (a), any unobligated or unadvanced balances of the sums which the Reconstruction Finance Corporation has theretofore been authorized and directed to lend to the Administrator. For the purpose of making loans or advances pursuant to this section, the Secretary of the Treasury is authorized to use as a public-debt transaction the proceeds from the sale of any securities issued under the Second Liberty Bond Act, as amended, and the purposes for which securities may be issued under that Act are extended to include such loans or advances to the Administrator. Repayments to the Secretary of the Treasury on such loans or advances shall be treated as a public-debt transaction of the United States.

- (b) There are hereby authorized to be appropriated such sums as the Congress may from time to time determine to be necessary for the purposes of this Act as hereinafter provided.
- (c) Fifty per centum of the annual sums herein made available or appropriated for loans for rural electrification pursuant to sections 4 and 5 of this title shall be allotted yearly by the Administrator for loans in the several States in the proportion which the number of their farms not then receiving central station electric service bears to the total number of farms of the United States not then receiving such service. The Administrator shall, within ninety days after the beginning of each fiscal year, determine for each State and for the United States the number of farms not then receiving such service.
- (d) The remaining 50 per centum of such annual sums shall be available for rural electrification loans in the several States and in the Territories, without allotment as hereinabove provided, in such amounts for each State and Territory as, in the opinion of the Administrator, may be effectively employed for the purposes of this Act, and to carry out the provisions of section 7: Provided, however, That not more than 10 per centum of said unallotted annual sums may be employed in any one State, or in all of the Territories.
- (e) If any part of the annual sums made available for the purposes of this Act shall not be loaned or obligated during the fiscal year for which such sums are made available, such unexpended or unobligated sums shall be available for loans by the Administrator in the following year or years without allotment: Provided, however, that not more than 10 per centum of said sums for rural electrification loans may be employed in any one State or in all of the Territories.
- (f) All money representing payments of principal and interest on loans made by the Administrator shall be paid to the Secretary of the Treasury in payment of loans made to the Administrator by the

Reconstruction Finance Corporation or the Secretary of the Treasury; upon the payment of such loans all moneys representing payments of principal and interest on loans made by the Administrator shall be covered into the Treasury as miscellaneous receipts. (May 20, 1936, ch. 432,  $\S$  3, 49 Stat. 1364, 1365; Sept. 21, 1944, ch. 412, Title V,  $\S\S$  501, 503, 504, 58 Stat. 739, 740; July 30, 1947, ch. 356, 61 Stat. 546; Oct. 28, 1949, ch. 776,  $\S$  4(a) (b) (c) and (d),

63 Stat. 948.)

SEC. 4. The Administrator is authorized and empowered, from the sums hereinbefore authorized, to make loans for rural electrification to persons, corporations, States, Territories, and subdivisions and agencies thereof, municipalities, peoples' utility districts and cooperative, nonprofit, or limited-dividend associations organized under the laws of any State or Territory of the United States, for the purpose of financing the construction and operation of generating plants, electric transmission and distribution lines or systems for the furnishing of electric energy to persons in rural areas who are not receiving central station service, and loans, from funds available under the provisions of sections 3(d) and 3(e) but without regard to the 10 per centum limitation therein contained, to cooperative associations and municipalities for the purpose of enabling said cooperative associations and municipalities to the extent that such indebtedness was incurred with respect to electric transmission and distribution lines or systems or portions thereof serving persons in rural areas, to discharge or refinance long-term debts owed by them to the Tennessee Valley Authority on account of loans made or credit extended under the terms of the Tennessee Valley Authority Act of 1933, as amended: Provided. That the Administrator, in making such loans, shall give preference to States, Territories, and subdivisions and agencies thereof, municipalities, peoples' utility districts, and cooperative, nonprofit, or limited-dividend associations, the projects of which comply with the requirements of this Such loans shall be on such terms and conditions relating to the expenditure of the moneys loaned and the security therefor as the Administrator shall determine and may be made payable in whole or in part out of the income: Provided further, That all such loans shall be self-liquidating within a period of not to exceed thirty-five years, and shall bear interest at the rate of 2 per centum per annum; interest rates on the unmatured and unpaid balance of any loans made pursuant to this section prior to September 21, 1944, shall be adjusted to 2 per centum per annum, and the maturity date of any such loans may be readjusted to occur at a date not beyond thirty-five years from the date of such loan: And provided further, That no loan for the construction, operation, or enlargement of any generating plant shall be made unless the consent of the State authority having jurisdiction in the premises is first obtained. Loans under this

section and section 5 shall not be made unless the Administrator finds and certifies that in his judgment the security therefor is reasonably adequate and such loan will be repaid within the time agreed. (May 20, 1936, ch. 432,  $\S4$ , 49 Stat. 1365; Sept. 21, 1944, ch. 412, Title V,  $\S\S502(a)$ , 503, 58 Stat. 739, 740; Dec. 23, 1944, ch. 725, 58 Stat. 925, 926; June 29, 1948, ch. 703, 62 Stat. 1070; Oct. 28, 1949, ch. 776,  $\S4(e)$ , 63 Stat. 948.)

The Administrator is authorized and empowered, from the SEC. 5. sums hereinbefore authorized, to make loans for the purpose of financing the wiring of the premises of persons in rural areas and the acquisition and installation of electrical and plumbing appliances and equipment. Such loans may be made to any of the borrowers of funds loaned under the provisions of section 4, or to any person, firm, or corporation supplying or installing the said wiring, appliances, or equipment. Such loans shall be for such terms, subject to such conditions, and so secured as reasonably to assure repayment thereof, and shall be at a rate of interest of 2 per centum per annum; interest rates on the unmatured and unpaid balance of any loans made pursuant to this section prior to September 21, 1944, shall be adjusted to 2 per centum per annum. (May 20, 1936, ch. 432, §5, 49 Stat. 1365; Sept. 21, 1944, ch. 412, Title V, §502(b), 58 Stat. 739.)

SEC. 6. For the purpose of administering this Act and for the purpose of making the studies, investigations, publications, and reports herein provided for, there is hereby authorized to be appropriated, out of any money in the Treasury not otherwise appropriated, such sums as shall be necessary. (Nay 20, 1936, ch. 432,  $\S$ 6, 49 Stat. 1365.)

SEC. 7. The Administrator is authorized and empowered to bid for and purchase at any foreclosure or other sale, or otherwise to acquire, property pledged or mortgaged to secure any loan made pursuant to this Act; to pay the purchase price and any costs and expenses incurred in connection therewith from the sums authorized in section 3 of this Act; to accept title to any property so purchased or acquired in the name of the United States of America; to operate or lease such property for such period as may be deemed necessary or advisable to protect the investment therein, but not to exceed five years after the acquisition thereof; and to sell such property so purchased or acquired, upon such terms and for such consideration as the Administrator shall determine to be reasonable.

No borrower of funds under section 4 or section 201 shall, without the approval of the Administrator, sell or dispose of its property, rights, or franchises, acquired under the provisions of this Act, until any loan obtained from the Rural Electrification Administration, including all interest and charges, shall have been repaid. (May 20, 1936, ch. 432,  $\S7$ , 49 Stat. 1365, 1366; Oct. 28, 1949, ch. 776,  $\S4(f)$ , 63 Stat. 948.)

SEC. 8. The administration of loans and contracts entered into by the Rural Electrification Administration established by Executive Order Numbered 7037, dated May 11, 1935, may be vested by the President in the Administrator authorized to be appointed by this Act; and in such event the provisions of this Act shall apply to said loans and contracts to the extent that said provisions are not inconsistent therewith. The President may transfer to the Rural Electrification Administration created by this Act the jurisdiction and control of the records, property (including office equipment), and personnel used or employed in the exercise and performance of the functions of the Rural Electrification Administration established by such Executive Order.

(May 20, 1936, ch. 432, §8, 49 Stat. 1366.)

SEC. 9. This Act shall be administered entirely on a nonpartisan basis, and in the appointment of officials, the selection of employees, and in the promotion of any such officials or employees, no political test or qualification shall be permitted or given consideration, but all such appointments and promotions shall be given and made on the basis of merit and efficiency. If the Administrator herein provided for is found by the President of the United States to be guilty of a violation of this section, he shall be removed from office by the President, and any appointee or selection of officials or employees made by the Administrator who is found guilty of a violation of this Act shall be removed by the Administrator. (Nay 20, 1936, ch. 432. § 9, 49 Stat. 1386.)

SEC. 10. The Administrator shall present annually to the Congress not later than the 20th day of January in each year a full report of his activities under this Act.

(May 20, 1936, ch. 432, § 10, 49 Stat. 1366.)

SEC. 11. In order to carry out the provisions of this Act the Administrator may accept and utilize such voluntary and uncompensated services of Federal, State, and local officers and employees as are available, and he may without regard to the provisions of civil-service laws applicable to officers and employees of the United States appoint and fix the compensation of attorneys, engineers, and experts, and he may, subject to the civil-service laws, appoint such other officers and employees as he may find necessary and prescribe their duties. The Administrator is authorized, from sums appropriated pursuant to section 6, to make such expenditures (including expenditures for

personal services; supplies and equipment; lawbooks and books of reference; directories and periodicals; travel expenses; rental at the seat of government and elsewhere; the purchase, operation, or maintenance of passenger-carrying vehicles; and printing and binding) as are appropriate and necessary to carry out the provisions of this Act. (May 20, 1936, ch. 432,  $\S$ 11, 49 Stat. 1366.)

SEC. 12. The Administrator is authorized and empowered to extend the time of payment of interest or principal of any loans made by the Administrator pursuant to this Act: Provided, however, That with respect to any loan made under section 4 or section 201, the payment of interest or principal shall not be extended more than five years after such payment shall have become due, and with respect to any loan made under section 5, the payment of principal or interest shall not be extended more than two years after such payment shall have become due: And provided further, That the provisions of this section shall not apply to any obligations or the security therefor which may be held by the Reconstruction Finance Corporation under the provisions of section 3.

(May 20, 1936, ch. 432,  $\S$ 12, 49 Stat. 1366, 1367; Oct. 28, 1949, ch. 776,  $\S$ 4(f), 63 Stat. 948.)

SEC. 13. As used in this Act the term "rural area" shall be deemed to mean any area of the United States not included within the boundaries of any city, village, or borough having a population in excess of fifteen hundred inhabitants, and such term shall be deemed to include both the farm and nonfarm population thereof; the term "farm" shall be deemed to mean a farm as defined in the publications of the Bureau of the Census; the term "person" shall be deemed to mean any natural person, firm, corporation, or association; the term "Territory" shall be deemed to include any insular possession of the United States.

(May 20, 1936, ch. 432, §13, 49 Stat. 1367.)

SEC. 14. If any provision of this Act, or the application thereof to any person or circumstances, is held invalid, the remainder of the Act and the application of such provision to other persons or circumstances shall not be affected thereby. (May 20, 1936, ch. 432,  $\S14$ , 49 Stat. 1367.)

SEC. 15. The Rural Electrification Administration is authorized to purchase such financial and credit reports as may be necessary to carry out its authorized work: *Provided*, That purchases under this authority shall not be made unless provision is made therefor in the applicable appropriation and the cost thereof is not in excess of limitations prescribed therein.

(Sept. 21, 1944, ch. 412, Title V, §505, 58 Stat. 740.)

#### TITLE II

SEC. 201. From such sums as are from time to time made available by the Congress to the Administrator for such purpose, pursuant to section 3 of this Act, the Administrator is authorized and empowered to make loans to persons now providing or who may hereafter provide telephone service in rural areas and to cooperative, nonprofit, limited dividend, or mutual associations. Except as otherwise provided by this title, such loans shall be made under the same terms and conditions as are provided in section 4 of this Act, for the purpose of financing the improvement, expansion; construction, acquisition, and operation of telephone lines, facilities or systems to furnish and improve telephone service in rural areas; Provided, however, That the Administrator, in making such loans, shall give preference to persons providing telephone service in rural areas, and to cooperative, nonprofit, limited dividend, or mutual associations: And provided further, That for a period of one year from and after the effective date of this title applications for loans received by the Administrator from persons who on the effective date of this title are engaged in the operation of existing telephone service in rural areas shall be considered and acted upon before action is taken upon any application received from any other person for any loan to finance the furnishing or improvement of telephone service to substantially the same subscribers. The Administrator in making such loans shall, insofar as possible, obtain assurance that the telephone service to be furnished or improved thereby will be made available to the widest practical number of rural users. When it is determined by the Administrator to be necessary in order to furnish or improve telephone service in rural areas, such loans may be made for the improvement, expansion, construction, acquisition, and operation of telephone lines, facilities, or systems with-The Administrator is out regard to their geographical location. further authorized and empowered to make loans for the purpose of refinancing outstanding indebtedness of persons furnishing telephone service in rural areas: Provided, That such refinancing shall be determined by the Administrator to be necessary in order to furnish and improve telephone service in rural areas: And provided further, That such refinancing shall constitute not more than 40 percentum of any loan made under this title. Loans under this section shall not be made unless the Administrator finds and certifies that in his judgment the security therefor is reasonably adequate and such loan will be repaid within the time agreed, nor shall such loan be made in any State which now has or may hereafter have a State regulatory body having authority to regulate telephone service and to require certificates of convenience and necessity to the applicant unless such certificate from such agency is first obtained. In a State in which there is no such agency or regulatory body legally authorized to issue such certificates to the applicant, no loan shall be made under this section unless the Administrator shall determine (and set forth his reasons therefor in writing) that no duplication of lines, facilities, or systems, providing reasonably adequate services will result therefrom. SEC. 202. Nothing contained in this Act shall be construed to deprive any State commission, board, or other agency of jurisdiction, under any State law, now or hereafter effective, to regulate telephone service which is not subject to regulation by the Federal Communications Commission, under the Communications Act of 1934, including the rates for such service.

SEC. 203. (a) As used in this title, the term "telephone service" shall be deemed to mean any communication service whereby voice communication through the use of electricity between the transmitting and receiving apparatus, is the principal intended use thereof, and shall include all telephone lines, facilities, or systems used in the rendition of such service; but shall not be deemed to mean telegraph services or facilities, or radio broadcasting services or facilities within the meaning of section 3 (o) of the Communications Act of 1934, as amended.

(b) As used in this title, the term "rural area" shall be deemed to mean any area of the United States not included within the boundaries of any incorporated or unincorporated city, village, or borough having a population in excess of one thousand five hundred inhabitants. (Oct. 28, 1949, ch. 776,  $\S$  5, 63 Stat. 948, 949.)

# RURAL TELEPHONE LOANS STATEMENT OF CONGRESSIONAL POLICY

The rural telephone legislation enacting clause contains the following statement of Congressional policy:

...1t is hereby declared to be the policy of the Congress that adequate telephone service be made generally available in rural areas through the improvement and expansion of existing telephone facilities and the construction and operation of such additional facilities as are required to assure the availability of adequate telephone service to the widest practicable number of rural users of such service. In order to effectuate this policy, the Rural Electrification Act of 1936 is amended as hereinafter provided. (Oct. 28, 1949, ch. 776,  $\S$ 1, 63 Stat. 948.)

### RESTRICTIONS ON BORROWERS

Rural Electrification Act of 1938 (June 21, 1938, ch. 554, Title IV,  $\S401$ , 52 Stat. 818) Provided in part as follows:

In making loans pursuant to this title and pursuant to the Rural Electrification Act of 1936, the Administrator of the Rural Electrification Administration shall require that, to the extent practicable and the cost of which is not unreasonable, the borrower agree to use in connection with the expenditure of such funds only such unmanufactured articles, materials, and supplies, as have been mined or produced in the United States, and only such manufactured articles, materials, and supplies as have been manufactured in the United States substantially all from articles, materials, or supplies mined, produced or manufactured, as the case may be, in the United States.

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